

United States Department of Education (USED)  
Office of Inspector General (OIG)  
Audits of School District Equipment

The USED OIG is busy visiting States and local school districts but they can't get to all of us. This series of articles, from the Association of Education Federal Finance Administrators (AEFFA), is designed to help you benefit from the OIG's work with others.

This article addresses the Federal equipment requirements in OMB Circular A-87, Attachment B subsection 15, as well as 34 CFR Part 80.32. The circular establishes cost allowability and the regulation establishes record keeping and ongoing requirements. Some States and Federal programs have more restrictive requirements – be careful to double check how your State's rules and Federal program specific rules affect your Federal program.

First, let's review some key equipment principles.

**Equipment.** According to OMB Circular A-87 (also known as 2 CFR Part 225), equipment is nonexpendable personal property with (1) a useful life of more than one year and; (2) a cost that is higher than the capitalization level established by the district, or \$5000, whichever is higher. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.

**Acquisition costs.** Acquisition cost includes the cost of the asset and the cost to put it in place. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from the acquisition cost in accordance with the district's regular accounting practices.

**Prior approval.** The cost of equipment is allowable as a direct charge only when approved in advance by the awarding agency (usually the State). Costs for improvements to equipment which materially increase its value or useful life are likewise allowable as a direct cost, but must receive prior approval from the awarding agency. The cost must be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the awarding agency. In addition, Federal awarding agencies are authorized to waive or delegate the prior approval requirement. Although equipment is unallowable as an indirect cost, depreciation and use allowance may be allowable. When replacing equipment purchased with Federal funds, the district may use the old equipment as a trade-in or sell it and use the proceeds to offset the cost of the replacement property.

## Lessons Learned

Now, what does the USED OIG say? The OIG consistently checks a district or State's equipment purchases as well as its equipment records. Common findings range from failure to properly label district property or maintain accurate inventory lists, to lack of adequate internal controls. Many districts get in trouble for failing to adhere to their own State or local rules.

In the Dallas audit (April 2009, [ED-OIG/A06H0011](#)), for example, the OIG cited the district for failure to obtain prior approval of \$501,109 for 150 laptops, 175 desktop computers and accessories, and \$827,563 for 963 Palm Pilots. While each of the individual items purchased fell below the district's \$5,000 capitalization threshold, the auditors considered them as sets; as purchases that required prior approval from the State. The OIG referenced the State's *Consolidation Application for Federal Funding*, which has an expanded definition of capital expenditures: "Capital expenditures for equipment, include[e] the cost of any modifications, attachment, accessories, or auxiliary apparatus necessary to make it usable **for the purpose for which it was acquired.**" The laptop computers and rolling cart sets were purchased to provide campuses with mobile computers that could be moved from classroom to classroom. The auditors reported that the purchase of individual computer components would not have served the same **purpose** as the cart sets at each of the schools.

Similarly, the Palm Pilots and related software were purchased to equip all DISD kindergarten through fifth grade reading teachers. The auditors reported that the Palm Pilots, if purchased only at the request of individual teachers, would not have enabled the district as a whole to electronically capture and record all kindergarten through fifth grade student reading development. Purchasing individual units would not have accomplished the intended purpose of the purchase.

The key here is that the State set a standard which was higher than that in OMB Circular A-87. OMB set the threshold at \$5,000. However, Texas' "purpose" requirement added to the definition and raised the standard. In order for the computers and Palm Pilots to be usable for the purpose for which they were acquired, they had to be purchased as systems, which exceeded the \$5,000 threshold and required prior approval.

The OIG found more typical issues in the Elizabeth School District (New Jersey, October 2007, [ED-OIG/A02G0020](#)). The auditors found that the district did not ensure that equipment purchased with Title I funds 1) was labeled as Federal equipment; 2) was used for Title I purposes; and 3) was identified in its financial system as purchased with Title I funds.

Requirements for equipment records are addressed in EDGAR 34 CFR Part 80.32 (d). Districts must maintain records that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate

disposition data including the date of disposal and sale price of the property. Districts must take a physical inventory of the property and reconcile the results at least once every two years, develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of the property, investigate any loss, damage, or theft, and implement procedures to keep the property in good condition. EDGAR also addresses the disposition of equipment.

What else does the OIG say? The OIG cites recipients who do not have internal controls to prevent small attractive items which are susceptible to theft from disappearing. While the equipment regulations do not require any specific recordkeeping for this class of materials, before recipients accept any Federal funds, they need to have an effective control system in place. It is logical that the USED would expect recipients to have a procedure to address this.

I hope that this brief article will help improve accountability over Federally funded equipment in your district. Find the USED federal regulations at:

<http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=%2Findex.tpl>